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Study of globalization on Indian agriculture sector

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Abstract

Trade is an essential part of economic development. The establishment of WTO is an important milestone in the history of international trade. India played an important role in establishment of GATT and then in establishment in WTO. India became the member of GATT in 1947 and started to play its part and now it's an active member of WTO, the replacement of GATT, which came into effect on 1st January 1995 in Uruguay Round. India is very favour of governance of international trade which is based on international rules and regulations. It believes that trade will not only benefit its economy but will also benefit all 134 members. When developing countries were liberalizing and expanding their economies, they felt the need for better export opportunities. The W.T.O. provides opportunities to the developing countries to grow and expand their business.

Keywords: Globalization, economic development, WTO

Introduction

Trade is an essential part of economic development. The establishment of WTO is an important milestone in the history of international trade. India played an important role in establishment of GATT and then in establishment in WTO. India became the member of GATT in 1947 and started to play its part and now it's an active member of WTO, the replacement of GATT, which came into effect on 1st January 1995 in Uruguay Round. India is very favour of governance of international trade which is based on international rules and regulations. It believes that trade will not only benefit its economy but will also benefit all 134 members. All countries will enjoy MFN status as India's economy and receive and provide national treatment to all the multinational and national organizations. When developing countries were liberalizing and expanding their economies, they felt the need for better export opportunities. The W.T.O. provides opportunities to the developing countries to grow and expand their business. In past, a country's trade pattern was judged by its natural resources and the productivity of its land. But today, it is almost not significant. After the industrial revolution, the availability of "Capital" became the most dominant source of comparative advantage. India will be able to increase its exports of Agricultural products in which it has comparative advantage. The W.T.O. provisions provided many opportunities to India to expand its export market. Opposite to this, the price situation changed dramatically after 1996, which was the first year after implementation of Uruguay Round Agreement and formation of W.T.O., international price of Agricultural products have since then decrease rapidly, because of which domestic price becomes higher than international price, which made India an favorable market for import of most Agricultural commodities. This situation resulted in a tremendous decrease in agricultural export. The impact of W.T.O. on agriculture was harshly felt by India as cheap imports have hit the Indian market, causing intense pressure among the agricultural producers.

WTO and the India: India has 6% of the world's human population, 15% of the World's livestock, 2% of the World's geographical area, 1% of rainwater, 1% of forest, and 0.5% of pastureland. As a result, the stress on the population-supporting capacity of natural ecosystems is very large. The country has over 7500 km of coastline and about 2.1 million sq km of exclusive economic zone in the oceans.

Around 60% of the geographical area suffers from soil erosion, water logging, and salinity. Two-thirds of the total 450 million heads of livestock struggle for survival in crowded rain fed regions. Nearly 70% of the population in India depends on Agriculture. It was hoped that

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the start of WTO negotiations would pave the way for an arrangement reflecting the aspirations of farming communities in India and other developing countries. The failure of the Seattle Ministerial Conference in 1999 dull that hope. Indian agriculture was perceived as badly hit when, in compliance with its obligations under WTO on April 1, 2000, the Government of India eliminated all import restrictions from more than 700 items, a large portion of which were agricultural commodities. The remaining 700 or so items were freed from import restrictions in 2001. The result of this liberalization is that many agricultural commodities and processed foods have entered the Indian market from different countries and are seen on supermarket shops. The political economy of agriculture as a result is at a crossroads where liberalization, globalization, and world trade have caused some concern in the Indian farming community.

The Uruguay Round began in 1986. It was the most ambitious round to date, hoping to expand the competence of GATT to important new areas such as services, capital, intellectual property, textiles, and agriculture. 123 countries took part in the Uruguay Round. Eight years after the Uruguay Round agreements entered into force, there is reason for the wide spread dissatisfaction with the implementation of the agricultural sector liberalization. There are times when agreements have not been implemented, or agreements have been violated. The reasons are, first the Uruguay Round was the first attempt to impose multilateral disciplines on agriculture. Second, the liberalization proposed was an imperfect one, unlike the Dunkel Draft that which would have liberalized agriculture much more. It is now clearly certain that the rise in international prices due to agricultural trade reforms, may not pass on fully to the farmers and to developing countries. In fact, one does not see a consistent increase in the spot export prices of agricultural commodities. Despite the implementation of the reforms, there have been wide fluctuations in the spot export prices of agricultural products. This, should not, however, come as a surprise as the international markets are very thin. External supply shocks arising out of over – production or shortages in countries like India can cause sudden & penetrating fluctuations in export prices, as the markets are inherently thin. India may want to stress on these points and bargain for concessions somewhere else.

If agricultural prices are not expected to rise, higher reduction commitments by the developed countries in various forms of price and non – price support could be suggested. India's preferences in the World Trade Organization (WTO) negotiations on agriculture cannot but include the protection of domestic agricultural production and the welfare of farmers, what with the political interests that prevail in an economy facing uncertain electoral issues. The Government has no choice but to bring in measures that seeks to ensure food security, livelihood, and rural development. Obtaining market reach for products of export interests is also high on the agenda. India's proposal, submitted to the World Trade Organization in November 2002, states that the country is in favour of measures for minimal tariff reduction and for provisions of special safeguards against import suddenly increases. Presently, developed countries have these provisions while developing and less developed countries do not. On domestic support, India's proposal calls for rapid reduction in all forms of trade distorting domestic support by developed countries and

flexibility to developing countries to improve their agriculture, food, and livelihood security. Sharp reduction in export subsidies of developed countries and a call for disciplining export credit, guarantees, and insurance provided by developed countries such as the United States are demanded. India is in favour of developing countries retaining marketing and transport subsidies on exports.

Developed countries through dirty tariffication, as agreed under the Uruguay Round, have clearly undermined agricultural trade liberalization. After promising market access to agricultural goods in return for agreeing to widen the scope of multilateral trade negotiations to cover trade-related intellectual property, trade-related investment measures and trade-in-services during the Uruguay Round, developed countries have not reduced agricultural subsidies or lowered tariff and non-tariff barriers. They are now seeking further market access in new areas such as investment in return for market access in agriculture. Developed countries should demonstrate their commitment to the multilateral trading system by delivering what was already promised rather than continue asking for concessions from the poorer countries.

Indian Agriculture and WTO: World Trade Organization (WTO) was established on January 1, 1995. It replaced GATT. WTO is much wider in scope and coverage. WTO member countries are subject to following obligations on domestic support to their agriculture. However, there are many issues under the AOA (Agreement On Agriculture) which are considered under against the interests of developing countries like India. Firstly, the minimum access for import of primary goods disregard the basic rule of promoting free trade under WTO agreement. Secondly, distortions emerge from inequity in domestic subsidy discipline due to different base positions. The developed countries are heavily subsidized countries and are allowed to retain up to 80 % of their subsidies but developing countries can subsidize their farmers not more than 10 % of the total value of agricultural production. Hence, the domestic support by developed countries needs to be reduced really in absolute terms.

Thirdly, India has argues that for low income counties, market access and domestic support discipline should be such that their food requirements are met from domestic sources. Fourthly, developing countries face highest tariff rates which include the agricultural cotton foods, cereals, meat, butter, milk, sugar, cheese as well as tobacco products. The Indian proposals have, by and been well received and approved by most of the developing countries as well as some of the developed countries.

Export competition: WTO member countries are legally and morally bound to reduction commitments of their direct export subsidies. Developed countries are to reduced the volume of subsidized agricultural exports by 21 % and the value of subsidies by 36 % of the average base period 1986-88 within six years. Developing countries are to reduce the same by 14% and 24 % respectively within ten years.

As regards tariffication, there is a false opinion that India is reducing import duties on agricultural products under WTO compulsions. As a matter of fact, the actual import duties on a variety of agricultural products are lower than the tariffs under WTO. Now the question arises about the economic benefit of exports in post – WTO period. In a country's export share in world export, if quantity share is more than the share in value, average export unit value of that country will be lower compared to average export unit value of the

world. It shows, country exports are at lower price in international market. In the context of fears expressed in some quarters that liberalization of imports would lead to sudden temporary increase of agricultural imports affecting Indian farmers adversely, the Economic Survey, 2001-02 observed "India has considerable flexibility to counter flooding of the Indian market by cheap agricultural products which provide a fair level of protection.

Except in rice market, India is negligible force in global market. Domestic subsidies of rich nation will not effect India. Many Indian products are cost effective in domestic market. The Government, in fact, raised the import tariff for many agricultural products such as; tea, coffee, pulses, and edible oils. Countervailing duties can also be imposed to counter countries apart from having the opinion of acting under safeguard provisions to counter sudden temporary increase of imports. With export expansion of a country, if quantity export share increases more than share in export value in World export, it will lead to un-favorable terms trade for the exporting nation. Contrary to India's expectations from WTO Agreement on Agriculture (AOA), the situation reversed from 1997 –2002. The speed of growth in agricultural exports of India could not be sustained after 1996. Agricultural exports of India took a downturn during 1997 -2002 in absolute terms. From 2002 we find an improvement of India's agricultural exports".

Conclusion

India has demonstrated that there exists broad political support to its economic reform programme, as has been proved by transition of several Governments in the last decade through the political space, agricultural trade policy reforms need to be accelerated much more than what has been done so far. The challenge is to make soften the inefficiency that exists in the Indian agriculture to close the gap between its potential and actual performance through a proper policy framework. India being a net exporter in agricultural products, it has more to gain from the trade reforms. It has sufficiently high bound rates on most of the products and therefore, flexibility can be ensured against unfair competition. Therefore, the time has come for India to come out of confusion and take a rational step in the negotiation process to control and use best of its own interests. Some sacrifices are worth taking in order to gain a wider global market. Here, it demands to highlight one issue that Rich and Poor countries needs to be honest. Let us be honest to understand that dominance of politics over economics and fair play will never give justice.

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